



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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September 23, 2005

GAO Finds Numerous Problems with DoD's Accounting of War Funds

Dear Democratic Colleague:

This week, the Government Accountability Office (GAO) issued an alarming report on the Department of Defense's (DoD) accounting of war funds, which includes funding for operations in Iraq, Afghanistan, and enhanced security operations at home. GAO identified numerous problems in how the DoD collects and records financial information for war spending. In one case, GAO found double counting of \$1.8 billion of Navy and Marine Corps obligations. In another, it found a \$2.1 billion discrepancy in obligations for Army personnel.

GAO concluded, "...neither DoD nor Congress (1) can reliably know how much the war is costing and details on how appropriated funds are being spent or (2) have historical data useful in considering future funding needs."

This revelation of mismanagement is cause for great concern. First and foremost, we cannot know if we are adequately supporting our troops in the field if we do not know how funds appropriated for the war are being spent. Secondly, at a time when we are running record deficits, our nation cannot afford to spend funds unwisely.

DoD's lack of accounting is a symptom of the process chosen to finance these operations. Rather than using the normal appropriation process where Congress sets priorities and makes trade-offs, the Administration and Republican Congress have chosen to fund these operations in an ad hoc fashion, through emergency supplemental appropriations. These supplemental bills circumvent the budget process, are not counted against budget limits, and are subject to little debate. This funding mechanism lends itself to a lack of cost consciousness because it is easy for any shortfall to be made up – without cutting other programs – simply by adding funds in subsequent supplementals requests. In short, they provide no incentive to ensure adequate accounting is in place.

Only days have passed since Hurricane Katrina and Republicans are looking for offsets to finance reconstruction for the gulf coast. It has been four years since operations in Afghanistan began and more than two years since the invasion of Iraq. Yet, after all this time,

there has been no initiative on the part of this Administration or the Republican Congress to offset war costs or to subject war spending to the scrutiny of the regular congressional budget process.

Since 2001, \$314 billion has been made available for operations in Iraq, Afghanistan, and enhanced security operations. Approximately \$50 billion more will be made available when the 2006 defense spending bill is passed. It is long overdue for the Administration and Congress to take the necessary steps to ensure adequate accounting of war funding. The first step is for the Administration to include costs of the war in its regular budget request for 2007.

The GAO report can be found at the following link:
<http://www.gao.gov/new.items/d05882.pdf>. If you have any questions, please do not hesitate to call the House Budget Committee Democratic staff at 6-7200.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member



Highlights of [GAO-05-882](#), a report to congressional committees

Why GAO Did This Study

Since the attacks of September 11, 2001, the Department of Defense (DOD) has reported spending \$191 billion through May 2005 to conduct the Global War on Terrorism (GWOT). On an ongoing basis, DOD compiles and reports information on the incremental costs of the war, and uses these data in preparing future funding requests. To assist Congress in its oversight of war spending, GAO assessed (1) whether DOD's reported war costs are based on reliable data, (2) the extent to which DOD's existing financial management policy is applicable to war spending, and (3) whether DOD has implemented cost controls as operations mature. GAO focused primarily, but not exclusively, on fiscal year 2004 reported costs—the latest full year of data available at the time of GAO's review.

What GAO Recommends

GAO is making a number of recommendations to the Secretary of Defense to (1) undertake a series of steps to ensure that reported GWOT costs are reliable, (2) expand its financial management regulation for contingency operations to include contingencies as large as GWOT, and (3) establish guidelines to control costs. In commenting on a draft of this report, DOD agreed with all but one of GAO's recommendations and described steps it has taken to improve its cost reporting.

www.gao.gov/cgi-bin/getrpt?GAO-05-882.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sharon Pickup at 202-512-9619 or pickups@gao.gov.

GLOBAL WAR ON TERRORISM

DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs

What GAO Found

GAO found numerous problems in DOD's processes for recording and reporting costs for GWOT, raising significant concerns about the overall reliability of DOD's reported cost data. As a result, neither DOD nor Congress can reliably know how much the war is costing and details on how appropriated funds are being spent, or have historical data useful in considering future funding needs. On the basis of GAO's work, DOD is taking steps to improve its cost reporting. Factors affecting the reliability of DOD's reported costs include long-standing deficiencies in DOD's financial systems, the lack of a systematic process to ensure that data are correctly entered into those systems, inaccurately reported costs, and difficulties in properly categorizing costs. In at least one case, reported costs may be materially overstated. Specifically, DOD's reported obligations for mobilized Army reservists in fiscal year 2004 were based primarily on estimates rather than actual information and differed from related payroll information by as much as \$2.1 billion, or 30 percent of the amount DOD reported in its cost report. In addition, GAO found inadvertent double counting in the Navy's and Marine Corps' portion of DOD's reported costs amounting to almost \$1.8 billion from November 2004 through April 2005. Because it was not feasible to examine all reported costs and significant data reliability problems existed, GAO was not able to determine the extent that total costs were misstated.

Further complicating the data reliability issue is the fact that DOD has not updated its policy to address GWOT spending. Instead, DOD is using its existing financial management regulation for funding contingency operations, although it was developed and structured to manage the costs of small-scale contingency operations. GAO has noted that specific provisions of the existing policy conflict with the needs of GWOT. One conflict concerns the use of supplemental funds for base support activities at home stations. DOD's financial management regulation administratively precludes such use, but military service officials have spent billions of dollars in supplemental funds on these activities. Some of this spending appears to directly support the war, but some does not. DOD has updated its regulation on the basis of GAO's work.

While individual commands have taken steps to control costs and DOD policy generally advises its officials of their financial management responsibilities to ensure the prudent use of contingency funding, DOD has not established guidelines that would require all commands involved in GWOT to take steps to control costs and to keep DOD informed of those steps and their success. For example, the commander of coalition forces in Iraq has unilaterally set a 10 percent cost reduction target for fiscal year 2005 but the details are not widely known outside the command. With the growth in GWOT costs, there is a need to ensure that all commands seek to control costs, including the need to review and rationalize related requirements. Until the department establishes guidelines on cost controls and is routinely informed about the types of controls and their impact on costs, it cannot be sure that all that can be done to control costs is being done.